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AUTHOR	Fremstad, Shawn; Parrott, Sharon; Greenberg, Mark; Savner, Steve; Turetsky, Vicki; Mezey, Jennifer
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ABSTRACT

This document is comprised of three Center for Law and Policy articles dealing with reauthorization of funding for the federal Temporary Assistance for Needy Families (TANF). The first article compares the U.S. House and Senate bills for reauthorization, asserting that in a broad array of areas, the Senate bill provides states with more flexibility and resources to help parents succeed in the labor force. The article then details 13 important ways in which the Senate bill reflects a better approach to welfare reform than the House bill. The second article examines the slowing trend in states' use of TANF funds since September 2001. The article notes that by the end of FY 2000, states redirected more TANF funds to their child care subsidy programs than were available through the federal Child Care and Development Block Grant (CCDBG). Since September 2001, however, a few states have pulled back TANF funds, and overall, states used slightly less for child care; the trend is likely to continue as the economy has worsened. These two articles contain references in the form of footnotes. The third article is a compilation of overhead slides for a presentation to the Welfare Reform Task Force at the National Conference of State Legislators. The slides pertain to work participation and child care funding issues in TANF reauthorization. In brief, the slides emphasize that rigid and prescriptive work requirements combined with little or no new child care funding will hurt state efforts, and that more flexible and outcome-oriented work provisions, along with increased child care funding comprise a better approach to welfare reform. (HTH)

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One Step Forward *or* Two Steps Back?

Why the Bipartisan Senate Finance Bill Reflects a Better Approach to TANF Reauthorization than the House Bill

Shawn Fremstad
Sharon Parrott
Mark Greenberg
Steve Savner
Vicki Turetsky
Jennifer Mezey

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The **Center for Law and Social Policy (CLASP)**, a national, nonprofit organization founded in 1968, conducts research, policy analysis, technical assistance, and advocacy on issues related to economic security for low-income families with children.

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Authors

Shawn Fremstad
Senior Policy Analyst, Center on Budget and Policy Priorities

Sharon Parrott
Co-Director of Federal TANF Policy, Center on Budget and Policy Priorities

Mark Greenberg
Senior Staff Attorney, Center for Law and Social Policy

Steve Savner
Senior Staff Attorney, Center for Law and Social Policy

Vicki Turetsky
Senior Staff Attorney, Center for Law and Social Policy

Jennifer Mezey
Staff Attorney, Center for Law and Social Policy

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Center on Budget and Policy Priorities
820 First Street, NE, Suite 510
Washington, DC 20002
(202) 408-1080
www.cbpp.org

Center for Law and Social Policy
1015 15th Street, NW, Suite 400
Washington, DC 20005
(202) 906-8000
www.clasp.org

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Overview

The Temporary Assistance for Needy Families (TANF) block grant, first established by the 1996 welfare law, expires at the end of federal fiscal year 2002 (September 30, 2002). The House has passed its bill reauthorizing TANF and a reauthorization bill approved by the Senate Finance Committee in June 2002 will be taken up by the full Senate later this year. The Senate Finance bill was largely crafted by a "tri-partisan group" of Senators and passed with support from Republican, Democratic, and Independent members of the Committee. It makes important improvements to the TANF block grant and other low-income programs and offers a more balanced approach to the next phase of welfare reform than the House bill. By contrast, the House bill was not the product of bipartisan negotiation and garnered almost no support among House Democrats. It lacks a number of the Senate Finance bill's key improvements and contains provisions that would weaken successful state initiatives to move families from welfare to work.

The Senate Finance bill, for example, while increasing the number of recipients states must engage in welfare-to-work activities, provides states more flexibility to place some welfare recipients in education and training activities and short-term programs designed to help recipients overcome serious barriers to employment (such as health problems and very low skill levels). This would allow states to address what researchers, policymakers, and states themselves have identified as two of the most important remaining welfare reform challenges: helping parents secure better-paying and more stable jobs, and improving welfare-to-work services for families with serious barriers to employment, many of whom have not received the help they need to make successful transitions to work and independence.

By contrast, the House-passed bill would raise required "participation rates" even as it severely constrains states' flexibility to determine the types of welfare-to-work programs that would most effectively help families succeed in the labor market. The bill would *reduce* access to education and training programs as compared to *current law* and effectively would force most states to operate large-scale workfare programs. This approach is contrary to research evidence showing that large-scale workfare programs are ineffective at helping families move from welfare to work.

In a broad array of areas, the Senate Finance bill provides states with more flexibility and resources to help parents succeed in the labor force than the House bill. This report discusses thirteen important ways in which the Senate Finance bill reflects a better approach to welfare reform than the House bill.

Work-Related Requirements

1. **While both bills increase the participation rates states must meet, the Senate Finance bill sets more reasonable hourly requirements, allows states to provide a range of welfare-to-work activities, and ensures that states are rewarded when families find jobs.** The House bill, by contrast, would require recipients to participate in activities for 40 hours each week in order to fully count toward participation rates (including parents of young children and those with special circumstances), would severely limit access to education and vocational training programs, and would give states credit toward their work rates for reducing their *caseloads*, regardless of whether families leaving welfare were actually employed.

2. **The Senate Finance bill allows states to operate welfare-to-work programs that combine a strong work focus with education and training opportunities; the**

House bill, by contrast, would force many states to scale back even their existing education and training efforts in favor of large-scale workfare programs. Two decades of research in this field has demonstrated that welfare-to-work programs that adopt a "mixed strategy" — combining an emphasis on finding employment with appropriate education and training activities — are most effective at increasing employment rates and earnings of recipients. Research also has shown that workfare programs are ineffective at improving recipients' employment outcomes. The Senate Finance bill builds on this research while the House bill seemingly ignores it.

3. **The Senate Finance bill would fund two innovative approaches to increasing the employment and earnings of recipients — transitional jobs programs which provide short-term, subsidized jobs and necessary support services to recipients with barriers to employment and a "business-link" program designed to foster innovation by providing low-wage workers with work-based training and advancement opportunities.** The House bill, by contrast, provides no funding for new initiatives aimed at increasing employment rates and earnings of TANF recipients.

4. **The Senate Finance bill allows states to make reasonable allowances for families caring for children who are ill or have disabilities.** Under the Senate Finance bill, states could exempt from work participation requirements a limited number of parents who are unable to meet the requirements because of the need to care for such a child. States also could get partial credit for those parents who are able to participate in welfare-to-work activities for some, but not all, of the required hours.

5. **The Senate Finance bill would help ensure that families with barriers to employment impeding their ability to meet program requirements are not inappropriately sanctioned. The House bill, by contrast, includes provisions that likely would increase the frequency and severity of inappropriate sanctioning.** A growing body of evidence demonstrates that many families that are sanctioned face serious barriers to employment that impede their ability to meet program requirements. Under the Senate Finance bill, states would retain the ability to reduce or terminate assistance if a family fails to comply with requirements, but a review of the family's welfare-to-work plan would need to be conducted before the sanction is imposed. The House bill includes no provisions to ensure that families having trouble get the help they need before imposing a sanction. To the contrary, the House bill would require states to terminate *all* assistance to families in which an adult has failed to meet program rules for two months, increasing the risk that states simply terminate assistance rather than actively work with families with the most serious employment barriers.

Supporting Working Families

6. **The Senate Finance bill provides substantially more child care funding than the House bill.** Under the Senate Finance bill, mandatory child care funding would increase by $5.5 billion. While too low to ensure that states can maintain their current child care programs, meet the increased work requirements, and make a significant dent in the number of low-income children in working families who need child care assistance but do not receive it, this figure is substantially above the $1 billion in increased mandatory child care funding provided under the House bill. The House bill falls well short of what is needed *just to ensure that states can maintain their current child care programs*, let alone to pay for the increased costs — estimated by CBO to total up to $5 billion in additional child care costs and $6 billion in work program costs — associated with the House work requirements.

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Senate Finance Bill: Areas for Improvement

The Senate Finance bill is a substantial improvement on the bill passed by the House, and improves current law in a number of ways. It has several limitations, however, that should be addressed when it is considered by the full Senate. The following are some examples of important areas that need improvement:

- **Funding:** The Senate Finance bill freezes basic TANF funding at current levels, without adjusting for inflation, and does not provide enough child care funding to reduce substantially the number of low-income children who need child care assistance but do not receive it because of a lack of resources. Dwindling unspent TANF resources from prior years, rising TANF caseloads in some states, and overall state fiscal pressure have led a number of states to *cut* TANF-funded programs recently — including child care programs that receive substantial TANF funding. While the child care funding in the Senate Finance bill is more adequate than in the House bill, it still falls well short of what is necessary to address unmet need and the reduction in TANF funding for child care that many states may be forced to make.

- **Supporting Working Poor Families:** The bill fails to afford states the flexibility to provide TANF-funded wage subsidies to low-income working families without imposing a time limit on such benefits. Without this flexibility, states are limited in the extent to which they can use TANF funds to "make work pay" and reduce the poverty of working poor families.

- **Helping Families with Barriers to Employment:** While the bill allows states to count participation in activities designed to help recipients address barriers to employment (such as physical or mental health problems, substance abuse, limited English proficiency, or very low basic skills), it limits the amount of time such activities can count to six months. For some families with serious employment barriers, this timeframe may be too short and may reduce the effectiveness of programs designed to help such families transition to work.

- **Sanction-Related Policies:** The bill includes only modest efforts to ensure that states review a family's circumstances and Individual Responsibility Plan before sanctioning a family for failing to meet program expectations. The bill also does not include basic requirements on states to inform families of why they are being sanctioned, to offer assistance in resolving problems that may be impeding compliance with program rules, or to attempt to contact and reengage those who have been sanctioned. More substantial improvements in these areas are needed to help ensure that families are not inappropriately sanctioned.

7. **The Senate Finance bill extends the Transitional Medical Assistance (TMA) program — a program that provides short-term Medicaid coverage for many low-income working families, including many families that leave welfare for work — for five years and includes important new state options that would allow states to simplify the program and provide coverage to more low-income working families.** The House bill, by contrast, extends TMA for only a single year and does not include these important options.

8. **The Senate Finance bill would allow states to provide supplemental housing benefits to low-income *working* families without triggering welfare requirements such as time limits and data reporting rules.** This provision recognizes the critical role stable housing can play in helping families remain employed and off welfare. The House bill does not include such a provision.

Marriage and Child Support Provisions

9. **The Senate Finance bill precludes states from discriminating against two-parent families in their TANF programs and provides *$1 billion* for marriage-related initiatives.** The bill takes a comprehensive

approach to promoting family formation by emphasizing both marriage education programs and programs that address important underlying factors that contribute to marital instability, including domestic violence and economic stress. The House bill, by contrast, would continue to allow states to discriminate against two-parent families in their TANF programs and would more narrowly focus funding on marriage education programs.

10. **The Senate Finance bill provides states with new flexibility to change child support rules so that when noncustodial parents pay support, it reaches their children rather than being retained by the federal government and states**. While the House bill also contains some useful child support provisions, it places more limits on state flexibility and would result in far less support reaching children.

Additional Provisions

11. **The Senate Finance bill includes an effective "contingency fund" that would direct additional TANF resources to states facing a rising number of families that need assistance due to a recession**. The House bill, by contrast, includes the current-law contingency fund with very minor changes, even though the current contingency fund is so poorly designed that no state received additional resources during the recent recession.

12. **The Senate Finance bill provides states with *options* to provide Medicaid and SCHIP coverage to low-income immigrant children and pregnant women who have been in the country for less than five years and TANF benefits to legal immigrant families that have been in the country for less than five years**. This would allow states to extend basic health care coverage to pregnant women, whose children will be U.S. citizens, and children, many of whom are future citizens. Similarly, under the Senate Finance bill, states would have the option to assist immigrants who fall on hard times with TANF-funded benefits and services. The House bill does not include these options.

13. **The Senate Finance bill does not include the ill-advised "superwaiver" included in the House bill, which would allow the Executive Branch to override, at a governor=s request and without Congressional input, nearly all provisions of federal law that govern more than a dozen programs.** Superwaivers could result in benefit cuts for low-income families and funding shifts at the state level that lower the overall amount of resources for programs that serve low-income families. Less risky and more effective options are available to Congress to provide greater state flexibility to coordinate low-income programs.

Despite the significant differences between the bills, there also are important areas of commonality. There is broad agreement in both the House and Senate that the block grant structure should be maintained, TANF funding should not be cut below current levels, states should be required to engage more adults in welfare-to-work programs, states should have more flexibility to direct child support to children rather than using it to reimburse government for welfare costs, and more resources should be devoted to efforts to promote and encourage marriage and strengthen families. Given these areas of agreement, the differences between the House and Senate Finance bills should be bridgeable.

Unfortunately, the Administration has, to date, sharply criticized key provisions of the Senate bill, rather than acknowledging areas of commonality and areas in which the Senate bill takes positive steps. There is still opportunity to reach agreement on a bill this year, but the process needs to begin with a clear understanding of the areas of agreement and disagreement, and a recognition that in many key areas, the Senate bill already reflects reasonable bipartisan compromise.

The Senate Finance Bill Would Increase TANF Participation Rates, But Adopts a More Flexible and Moderate Approach than the House Bill

In Congress, there is a broad consensus that states should engage a larger share of welfare recipients in welfare-to-work activities. As a result, both the House and the Senate Finance Committee bills would require states to meet a new "universal engagement" requirement. Under this requirement, states would have to develop Individual Responsibility Plans for all adult recipients and monitor recipients' compliance with the requirements detailed in these plans. Both bills also increase TANF "participation rates" — the share of recipients who must participate in specified work-related activities — to 70 percent by 2007 and increase the number of hours recipients must spent in a set of "primary" activities from 20 to 24 hours. There are, however, a number of significant differences in the bill's approaches to participation requirements. In each of these areas, the Senate Finance bill adopts a more reasonable approach that would allow states to continue existing effective programs and to develop new ones. The Senate Finance bill provisions strike a better balance between requiring states to engage recipients in meaningful work and work-preparation activities and ensuring that the requirements are flexible enough to meet the needs of individual states and recipients.

- **The Senate Finance bill rewards employment entries, not caseload reduction.** The Senate Finance bill provides for an "employment credit" which adjusts the participation rate a state must meet based on the number of families leaving welfare with jobs, with greater credit for those in better-paying jobs. Giving credit to states based on the number of families who leave welfare and are working recognizes that the ultimate goal should be to help families get jobs and reach a point when they no longer need welfare. The employment credit also provides credit to states that use TANF funds for child care or transportation help to working families outside welfare. In contrast, under the House bill, a state's rate would be adjusted downward only if the state's caseload falls, even if the caseload decline has nothing to do with people getting jobs or no longer needing assistance; such a provision creates an incentive to cut caseloads whether or not people are getting jobs.

  Under the Senate Finance bill, the overall employment credit is capped each year (except during economic downturns). Under ordinary economic circumstances, a state's adjusted participation rate in FY 2007 could not be below 50 percent. The cap is suspended if a state meets two of the three economic "triggers" used to determine when a state qualifies for contingency funding. These triggers are based on increased unemployment rates and rising Food Stamp or TANF caseloads that stem from deteriorating economic conditions. This mechanism addresses the concern that in downturns, available resources are stressed at the same time that caseloads are rising and employment is falling.[1]

- **The Senate Finance bill gives states broader discretion to utilize education, training, and activities to address employment barriers in their welfare-to-work programs, and would not compel states to use unpaid work programs.** When the participation rate states must meet is increased — as it is in both bills — whether an activity "counts" toward the rate plays an increasingly large role in determining whether a state can allow recipients to participate in the activity. Under the Senate Finance bill, states would have significantly greater flexibility to determine whether and when to use

education, training, and "barrier removal" activities. The bill provides that the first 24 hours of participation can include activities such as paid and unpaid work, vocational training for up to 24 months (for up to 30 percent of those counting toward participation rates), postsecondary education (for up to ten percent of the state's caseload) and, for up to six months in any two-year period, activities to address work barriers.

In contrast, the House bill sharply limits the activities that count toward the first 24 hours of activity. In general, only participation in paid or unpaid work would count for adults; education, training and activities designed to address work barriers could count toward the first 24 hours for no more than *three months* in a two-year period. (In very limited circumstances an additional month of education or training would be permitted.) Individuals who could not find jobs after this three-month period would have to participate either in paid subsidized jobs programs or unpaid "workfare" programs. While paid subsidized jobs programs likely would be more effective at helping recipients move to unsubsidized jobs, they also are substantially more expensive to operate than workfare programs. Since the House bill provides no additional funding to pay for subsidized jobs, states effectively would be compelled to operate large-scale workfare programs, an option most states have rejected as an ineffective way to promote employment.

- **The Senate Finance Bill rejects the House approach of mandating a 40-hour participation requirement for all recipients and instead maintains the more flexible approach in current law.** Under the Senate Finance bill, as in current law, single parents of children under 6 who participate in work activities for at least 20 hours each week count toward the participation rates, while all other recipients must participate 30 hours each week in order to count. Under the House bill, *all* individuals would have to participate for 40 hours to count toward the rates. The Senate Finance bill also provides more opportunities than the House bill for states to receive "partial credit" when recipients participate in work activities for some, but not all, of the required hours. The partial credit provision provides states with an important incentive to work with — rather than ignore — those recipients whose circumstances make it difficult or impossible to participate in all of the required hours. Partial participation can be the first step for some adults in the transition from welfare to work.

  Under the Senate Finance bill, states would have the authority (as they do currently) to require 40 hours of participation in work activities. The Senate Finance bill, however, does not mandate this approach which would be costly for states and for which there is no evidence of better employment outcomes. In contrast, because of the increased costs associated with increasing required hours and the administrative complexities of developing a set of activities whose hours always sum to 40, adopting the House requirement likely would force states to focus on inexpensive ways to keep recipients busy rather than on implementing the most effective strategies for helping recipients find jobs.

In short, the Senate approach would require states to engage more recipients in welfare-to-work activities, but would not force states to adopt ineffective workfare strategies, impose inflexible 40-hour requirements on all families, and jettison effective initiatives that helped lead to an extraordinary increase in employment among TANF recipients since 1996.

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[1] The cap was included in the Senate bill because of concerns that the size of the credits otherwise might be too large. There are legitimate concerns about wanting to ensure that the participation rate both rewards employment and requires significant engagement by families receiving assistance. At the same time, it would be useful to explore ways to have a credit in which states are always rewarded for higher levels of job entries and better-paying jobs.

The Senate Finance Bill Would Allow Broader Access to Education and Training and Would Not Compel States to Run Large Workfare Programs

One of the key differences between the House and Senate Finance bills concerns their approach to skill development and training. The Senate Finance bill broadens access to education and training; the House bill narrows it. The House bill pushes states in the direction of running unpaid work experience programs, which never have been shown to improve parents' employment prospects; the Senate Finance bill allows such programs, but does not force states to run them, and ensures that such programs operate consistent with basic and longstanding protections provided to all workers.

Better access to education and training should be a crucial part of the next stage of welfare reform. While many welfare recipients found jobs during the last several years of welfare reform, these jobs typically have been low-wage, lack benefits such as health care, and provide little or no opportunity to move to better-paying positions. Skill-building can help parents attain better jobs.

- **Skills matter more in the labor market than ever before.** Data from the 2000 Census show that women with an associate degree earned more than twice as much in 1999 as those without a high school diploma (about $25,000 compared to about $12,000) and 38 percent more than those with only a high school diploma (who earn about $18,000). Some postsecondary education is required to qualify for family-supporting jobs, yet only about one-sixth of welfare recipients have any postsecondary education.

- **The most successful welfare-to-work programs have made use of a range of services, including education and training.** Welfare-to-work programs often increase employment without improving the quality of jobs parents get. However, in the recent National Evaluation of Welfare-to-Work Strategies, a "mixed service" program operated in Portland, Oregon at the time of the evaluation far outperformed the other ten sites — and other welfare-to-work programs that have been studied — by producing large increases in employment, earnings, job quality (wages and benefits), and employment stability.[1] While maintaining a strong employment focus, Portland substantially increased participation in education and training and placed a strong emphasis on helping recipients find jobs that paid higher wages and offered opportunities for advancement. Portland also increased receipt of education and training credentials, including helping more high school dropouts to earn both a GED and an occupational certificate.

- **A recent study of California TANF recipients who attended community college programs found that their earnings increased substantially after leaving the programs and that the earnings gains were greatest for those who completed vocational certificate programs or obtained associates degrees, which generally take significantly longer than 12 months to complete.** The community college programs were successful at improving the employment outcomes for those who entered with a high school diploma and those that did not.[2]

The Senate Finance bill broadens access to education and training, by increasing from twelve to twenty-four months the duration of vocational training that can count toward participation rates (for up to 30 percent of those counting toward the participation rates) and by allowing states to count participants in

structured postsecondary education programs (for up to 10 percent of a state's caseload). In contrast, under the House bill, a state could count full-time education or training toward participation rates for no more than four months.

The Administration and other proponents of the House bill sometimes assert that there would be ample access to training under the House bill because a state could add on training along with twenty-four hours a week of other work activities. While many families currently participating in education and training programs combine these activities with employment, they often work less than 24 hours each week. For many single parents, working in a subsidized or unsubsidized job or participating in a workfare program for 24 hours each week would leave too few remaining hours both to meet parenting responsibilities and to devote enough hours to education or training programs to improve their employment prospects. (The study of California TANF recipients who attend community colleges shows that education and vocational training programs that result in a certificate or degree are associated with the largest earnings gains.) Moreover, it is important to note that many states likely will assign recipients to more than 24 hours of paid or unpaid work so that the recipient can count toward the participation rates if she misses several hours for any reason, such as an illness, the need to care for a sick child, or a parent-teacher conference. If recipients are assigned to more than 24 hours of paid or unpaid work, participation in education or training programs will be even more difficult. Finally, many states are like to find that structuring education and training activities in combination with 24 hours each week of unsubsidized employment, workfare, or subsidized jobs to be costly and complex to administer. For these reasons, the overall effect of the House provisions would be a sharp reduction in the access to training.

Some critics have suggested that under the Senate Finance Bill, recipients could participate in education programs for extended periods of time to "avoid work." No state would have any interest in allowing such a result, however. In TANF, states receive a fixed block grant, and have tremendous political and fiscal incentives to require work and reduce caseloads. No state has any reason to allow access to education and training programs except when the state believes that such programs are effective means of achieving better employment outcomes.

The Senate Finance bill also would allow states more flexibility to structure individualized activities for families with the most serious employment barriers. An array of research findings indicate that a substantial share of the families still receiving TANF assistance face barriers — such as physical and mental health problems, disabilities, substance abuse, and lack of basic English language skills — that make sustained engagement in employment or welfare-to-work programs more difficult.[3] Under the Senate Finance bill, states could count toward participation rates individuals engaged in individualized activities intended to address barriers for up to six months (so long as the second three months included a work or job readiness component); in contrast, under the House bill, such activities would only be countable on a stand-alone basis for up to three months. There are concerns that even the Finance approach is too limited, because the six month limit will sometimes mean that a family with serious barriers will be unable to complete an activity or set of needed services within the allowable time; still, the Finance approach is better than that allowed by the House.

Finally, the Senate and House also take very different approaches to the use of unpaid work experience — "workfare" — programs. The House bill would pressure states to expand usage of such programs (by sharply limiting which activities count toward the first 24 hours of participation, as more fully discussed in the previous section), while the Senate Finance bill would not.

The House bill's push toward workfare is based on ideology, not research. Research has never shown significant effects on employment and earnings for unpaid work experience programs. In a review of research conducted in the 1980s, the Manpower Demonstration Research Corporation (MDRC) concluded,

"there is little evidence that unpaid work experience leads to consistent employment or earnings effects."[4] Based in part on this research, most states have shown little interest in operating large-scale workfare programs under TANF. More recently, researchers in Washington State attempted to isolate the employment and earnings impacts of six different work activities in Washington's "WorkFirst" (TANF) program.[5] Work experience was one of three components serving recipients who were relatively less job-ready, along with job skills training and the state's Community Jobs program (a transitional jobs program offering paid subsidized employment). The study determined that among the three:

- unpaid work experience increased employment among participants, but its impacts were *substantially less* than either job skills training or Community Jobs; and

- unpaid work experience *did not significantly increase the average earnings of those who found jobs while* both of the other two programs had significant positive earnings effects, with the Community Jobs program being the strongest of the three on both measures.

Based on the weak performance of the work experience component, the program was eliminated from Washington State's current budget.

While the Senate Finance bill allows states to decide whether and when to use unpaid work experience programs, the bill also includes two key protections: an assurance that individuals must be compensated at not less than the minimum wage for their work, and prohibitions against using unpaid work programs to displace other workers. In contrast, the House bill is silent on the question of minimum wage protections, and does not change the very limited non-displacement provisions of current law, under which workfare participants can be used to fill vacant positions, effectively allowing employers to use workfare participants to reduce their paid workforce. It has been asserted that the Senate Finance bill would make it effectively impossible to run workfare programs; to the contrary, states would be free to do so provided they met the minimum wage requirements of the Fair Labor Standards Act and ensured that workfare positions did not displace current or laid-off employees or fill vacant positions.

Based on the research showing the value of education and training in improving employment and earnings, and the lack of evidence showing similar positive results for unpaid work experience, the Senate Finance bill's approach will be far more effective in helping recipients enter and succeed in the labor market.

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[1] Gayle Hamilton, et al., "How Effective Are Different Welfare-to-Work Approaches? Five-Year Adult and Child Impacts for Eleven Programs," Executive Summary, *National Evaluation of Welfare-to-Work Strategies*, (New York: Manpower Demonstration Research Corporation, November 2001).

[2] Anita Mathur, "Credentials Count: How California's Community Colleges Help Parents Move from Welfare to Self-Sufficiency," prepared by the California Community Colleges Chancellor's Office for the Center for Law and Social Policy.

[3] Goldberg, Heidi, "Improving TANF Program Outcomes for Families With Barriers to Employment," Center on Budget and Policy Priorities, January 2002.

[4] Thomas Brock, David Butler, and David Long, "Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research," Manpower Demonstration Research Corporation, September 1993, p. 3.

[5] Marieka Klawitter, "Effects of WorkFirst Activities on Employment and Earnings," University of Washington, September 2001, p. 4-5. The other activities included job search, job search workshop, pre-employment training, jobs skills training, and the state's Community Jobs program.

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The Senate Finance Bill Would Encourage States to Create Transitional Jobs and Partnerships with Businesses

TANF implementation has been associated with a large increase in employment among low income parents, but two key concerns have been the difficulties in increasing employment for those with the most serious work barriers, and the extent to which parents entering employment often have low wages and little or no earnings gains over time. The Senate Finance bill addresses these concerns by committing $1 billion over five years to a new grant program funding Transitional Jobs programs and business-sponsored training programs to help those with limited skills enter and advance in the labor market. The House Bill provides no new resources for such efforts.

- **Transitional Jobs**: Traditional, low-intensity work-first activities often have not been effective in helping people who face significant barriers to employment to find and retain jobs. A number of states and cities have set up Transitional Jobs programs to help these individuals get to work. Transitional Jobs provide wage-paying employment, support services, and skill development activities to help a job seeker become a permanent wage earner. Participants earn paychecks instead of welfare grants, allowing them to pay into Social Security, and qualifying them for the Earned Income Tax Credit.

  There is strong evidence that Transitional Jobs programs can be successful. A study of the impacts of a number of welfare-to-work programs in Washington State found that when the demographic differences among program participants were taken into account, the transitional jobs program had a larger positive impact on employment than other types of activities, including workfare programs. The transitional jobs program also had the second largest effect on earnings.[1] And, in a recent multi-site review of Transitional Jobs programs undertaken by Mathematica Policy Research, Inc., 47 to 70 percent of all program participants secured unsubsidized employment, and 81 to 94 percent of all those who completed the program were placed in unsubsidized employment.[2]

- **"Business Link" Employer-Sponsored Training:** In recent years, there has been increasing interest in fostering partnerships with employers to provide employer-linked training and help individuals enter and advance to better jobs. The Senate Finance bill builds on this interest by dedicating funding to new and expanded programs for employer-based training programs targeted to unemployed and low-earning workers. The goal of these programs would be to enhance the skills — and improve the long-term employment prospects — of parents on the first rung of the employment ladder. The effectiveness of engaging employers in the delivery of employment and training services has been demonstrated in programs such as the Center for Employment and Training.

With flat TANF funding, the phasing out of Welfare-to-Work block grants that funded many transitional jobs and employer-based training programs, and the rising costs of meeting higher work participation rates, states will find it more difficult to establish innovative new programs. The dedicated funding in the Senate Finance bill would be an effective way to spur new initiatives to improve employment outcomes in state and local welfare-to-work efforts.

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[1] Marieka Klawitter, "Effects of Workfirst Activities on Employment and Earnings," University of Washington, September 2001.

[2] Gretchen Kirby, et al., "Transitional Jobs: Stepping Stones to Unsubsidized Employment," Mathematica Policy Research, Inc., April 2002.

The Senate Finance Bill Would Give States More Flexibility to Help Parents Caring for Disabled Children or Family Members

Children with disabilities often need more time from their parents than non-disabled children. Parents of these children often need to take them to appointments with doctors, physical therapists, mental health counselors, or speech pathologists or attend frequent meetings with teachers and special education providers. In addition, appropriate child care for these children often is unavailable, which impedes some parents' ability to work substantial hours.

These factors make it difficult for some parents of children with disabilities to fulfill a 30-hour per week work requirement while meeting their parenting obligations.[1] Accordingly, most states allow parents caring for family members with disabilities to be exempted from TANF work requirements. Other states provide flexible employment plans for these parents rather than impose a rigid hourly work requirement on them, or allow parents to meet their work requirement by caring for a disabled family member. In Wisconsin, for example, caring for a family member with a disability is considered an allowable work activity.

While most states have recognized the difficulties faced by parents caring for children with disabilities, the federal TANF law requires states to include these parents in their TANF work participation rate calculation. Given the increases in work participation rates in the House and Senate reauthorization bills, states will face increasing pressure to place these parents in full-time or near-full-time work activities, which would limit the amount of care they can provide for their disabled children.

The Senate Finance bill addresses this concern. In cases where the care needed by a disabled child or other family member prevents a parent from participating in work activities for 30 hours per week, the bill would allow states to exempt the parent from TANF work requirements and to exclude the family from the state's TANF work participation rate. The number of such families that could be excluded from a state's work participation rate would be capped at 10 percent of the state's TANF caseload. The Senate Finance bill also would award states partial credit toward their work participation rate for parents — including, but not limited to, those with disabled children — who are able to work at least half, but not all, of the mandated hours.

The House bill, by contrast, does not recognize the unique circumstances of families with children with disabilities. Instead, such families would be subject to the bill's requirements to participate in work activities for 40 hours each week.

The Senate approach of allowing a limited number of exemptions to the work requirements and providing states with partial credit for parents who can participate for some of the required hours strikes an appropriate policy balance. These complementary provisions recognize that some parents will need to be excused from work requirements entirely, while also providing states with incentives to engage parents in work activities even if parents are unable to participate for all of the mandated hours.

[1] For research findings on this point, see Peter D. Brandon and Dennis P. Hogan, *The Effects of Children with Disabilities on Mother's Exit from Welfare*, Joint Center on Poverty Research Working Paper 300, June 28, 2002.

The Senate Finance Bill Takes a More Sensible Approach to Sanctions

Under current law, when a TANF recipient fails to meet program rules such as work requirements, the recipient is subject to a "sanction" — the loss of some or all cash assistance benefits. States have adopted a variety of approaches to sanctions. Some states impose "full-family" sanctions, in which a family's entire benefit is terminated when an adult fails to meet program rules, while other states reduce the family's grant but do not eliminate it. State "sanction rates" also vary substantially. For example, some states have high sanction rates because they impose sanctions after brief or minor instances of noncompliance or do little to determine whether a family that has failed to meet a program requirement needs additional assistance in order to succeed in the program.

A growing body of evidence demonstrates that many families that are sanctioned face serious barriers to employment that impede their ability to meet program requirements. In a review of the available research on sanction policy, Don Winstead, then head of Florida's welfare department and now a senior HHS official in the Bush Administration and Dan Bloom of MDRC concluded that, "studies have consistently found that, on average, sanctioned clients have lower levels of education and are more likely than other recipients to face barriers to employment such as physical and mental health problems."[1] These studies suggest that in many cases, recipients who are sanctioned are not willfully noncompliant with program requirements, but instead have conditions or circumstances that inhibit their ability to meet those requirements.

Moreover, emerging research suggests that sanctions can lead to serious hardship for families. Boston University researchers found, for example, that children ages three and under in sanctioned families were at significantly greater risk of going hungry than children in families receiving full TANF assistance and another recent study found that the use of full-family sanctions is associated with increases in TANF recipients' involvement with the child welfare system.[2]

The Senate Finance bill includes a modest provision to help ensure that the families most in need of additional help receive it rather than be sanctioned off of TANF. Under the Senate Finance bill, states would be required to review a family's Individual Responsibility Plan before imposing a sanction on the family. This review would provide an opportunity for the state to determine whether a family has purposely failed to comply with program requirements or, instead, needs additional services or supports to overcome a barrier or other problem that is impeding the family's ability to comply. States would retain the authority to impose sanctions on noncompliant families.

While useful, the Senate provision is still limited in scope. There is a risk that some states would conduct only a pro forma review before imposing a sanction. Thus, its effectiveness will depend on how states design and implement the review mechanism. The Finance bill does not require states to implement many of the key safeguards that are part of an effective sanction process, such as providing adequate notice before and after sanctions have been imposed, and providing assistance to resolve difficulties that affect a family's ability to participate.

While the Senate Finance bill seeks (however modestly) to reduce the extent to which families are inappropriately sanctioned, the House bill would increase the severity and frequency of sanctions with the likely result being an increase in the number of families with severe health and other impairments that are sanctioned off of TANF while remaining unemployed. A provision in the House bill would require states to terminate all TANF assistance to a family — including benefits for children — if the parent does not meet the program's work requirements for as little as two months. The House imposes such a

requirement despite the lack of any research evidence indicating that immediate, full-family sanctions are more effective than partial sanctions at increasing program compliance and despite clear evidence that sanctions can cause real hardship for the most disadvantaged families.

The House provision would limit states' flexibility to design their own sanction policies and would force changes even in many of the states that already have full-family sanction policies. A third of states that impose full-family sanctions under some circumstances impose a lesser penalty first and only terminate assistance to families after noncompliance has lasted for an extended period of time or has occurred several times; this approach generally would not be permitted under the House bill.

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[1] Dan Bloom and Don Winstead, *Sanctions and Welfare Reform*, The Brookings Institution, Welfare Reform and Beyond Policy Brief No. 12, January 2002.

[2] John Cook, Deborah Frank, et al., "Welfare Reform and the Health of Young Children," *Archives of Pediatric and Adolescent Medicine*, 156(7) (2002); Christina Paxson and Jane Waldfogel, *Welfare Reforms, Family Resources, and Child Maltreatment*, Joint Center for Poverty Research, December 2000.

The Senate Finance Bill Provides More Child Care Funding Than House Bill But Still Falls Far Short of Addressing Unmet Child Care Needs

Child care assistance is an essential work support for low-income working families and an important tool in promoting healthy child development and early learning opportunities for young children. In order for parents receiving TANF assistance to work or participate in welfare-to-work activities, they need reliable child care. For low-income parents, reliable child care can be an important element in improving job retention. Furthermore, a growing body of research demonstrates that quality child care arrangements can promote healthy child development for young children and potentially provide opportunities for positive youth development among older school-age children.[1] Because the cost of safe, quality child care is so high, low-income working parents often cannot afford it without government assistance. Thus, the availability of safe, quality child care is a key component of discussions about welfare reform and child well-being.

The Senate Finance bill provides substantially more child care funding to states than the House bill. The Finance bill provides enough child care funding to meet the increased costs of the bill's work requirements without curtailing services to families, while the funding provided under the House bill represents a small fraction of the new costs states would incur. While the Senate Finance bill clearly provides more help to states and families, neither bill provides sufficient resources to allow states to significantly expand access to child care assistance for low-income families or make needed quality investments.

- **The Senate Finance bill provides the additional child care funding necessary to meet the child care costs associated with its increased work requirements without forcing states to cut back on their current services.** The Senate Finance bill would provide $5.5 billion in additional *mandatory* federal funding over five years. The Congressional Budget Office (CBO) projects that the child care costs states would face to meet the Senate Finance bill's increased work requirements would total $130 million over five years; CBO estimates that the TANF work costs would be an additional $160 million.

  Apart from meeting the child care costs of the work requirements, most of the Senate Finance bill's new child care funding will be needed to avoid cuts in current levels of child care services. CBO estimates that an additional $4.55 billion is needed over the next five years in order to keep pace with inflation for the mandatory federal child care funding stream, state funds used to match these federal funds, and the TANF funds devoted to child care.[2]

  Moreover, the Senate Finance bill has structured its child care funding with a recognition that states are currently under enormous fiscal stress. Under the Finance bill, $5 billion of the $5.5 billion, including all of the additional funds proposed for the first three years, would be made available to states without requiring any state matching funds, but with a prohibition against using these funds to supplant current state spending. (Indeed, the Senate Finance bill may have gone too far in allowing states to receive unmatched funds. If the Senate Finance bill required more state matching funds in later years when state fiscal conditions should be more favorable, overall funding for child care would be higher.)

- **By contrast, the House bill falls far short of providing enough funding to meet the child care costs of the bill's TANF work requirements, and would not provide funds needed to maintain current services for low-income families.** CBO has estimated

that the increased child care costs associated with the House bill's new 40-hour work mandate total $4.9 billion over five years. Therefore, using CBO's estimates, it would cost approximately $9.5 billion ($4.9 billion in new child care costs associated with meeting the increased work requirements and $4.55 to maintain current child care services) to implement the House bill's work requirements without cutting services to currently served families. Moreover, CBO has estimated that the non-child care costs of the House's 40-hour requirement — the costs of providing welfare-to-work program services for 40 hours a week — would amount to an additional $6.2 billion in TANF funds.[3] Since no additional funding is provided to meet those costs, states would surely need to cut current TANF funding for child care (and other current TANF expenditures) in order to meet these new work requirements.

Despite imposing these new costs, the House bill increases mandatory child care funding by only $1 billion over five years with a required $785 million in state match to draw these funds down.[4] Thus, the additional resources provided under the House bill represent a small fraction of the new costs that states would incur.

- **Even under the Senate Finance bill, there would be little funding available to improve access to child care for low-income working families or to significantly improve child care quality.** While the Senate Finance bill provides more child care resources than does the House bill, most of the increased funding would go towards maintaining current child care services and funding work requirements. As a result, there would be little funding left over to address the vast unmet need for child care assistance among low-income working parents and make investments in initiatives designed to improve the quality of child care programs. In FY 2000, states served only one out of seven children who were eligible for child care assistance under federal rules.[5] As of December, 2001, approximately 20 states had waiting lists for child care or had stopped processing new applications for child care assistance.[6]

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[1] See Jennifer Mezey, Rachel Schumacher, Mark H. Greenberg, Joan Lombardi and John Hutchins, "Unfinished Agenda: Child Care for Low-Income Families Since 1996 – Implications for Federal and State Policy," Center for Law and Social Policy, March, 2002.

[2] CBO's $4.55 billion figure may understate the cost of maintaining current services because the estimate assumes that states will be able to maintain their current levels of using TANF for child care. Since states are currently spending $2 billion more than their current TANF allotments, a rate of spending that cannot be sustained indefinitely, this may not be a reasonable assumption. Moreover, neither the Senate nor the House bills provide additional TANF funding to meet the TANF costs of the new work requirements, which may increase the likelihood that states would reduce TANF funding for child care in order to meet the new requirements.

[3] CBO has estimated that the House costs for work and child care would total approximately $11 billion if the activities required for the last sixteen hours of the 40-hour a week work requirement are comparable in intensity to those required for the first twenty-four hours; CBO has estimated that if such activities are not of comparable intensity, the five-year combined costs would be $8.4 billion.

[4] The House bill also increases the *authorization* level for discretionary child care funding. Increasing the authorization level, however, does nothing to ensure that additional funding will be provided in any future appropriations bill.

[5] Jennifer Mezey, Mark Greenberg and Rachel Schumacher, "The Vast Majority of Federally Eligible Children Did Not Receive Child Care Assistance in FY 2000 – Increased Funding Will Be Needed to Serve More Families," Center for Law and Social Policy.

[6] Danielle Ewen, Helen Blank, Katherine Hart and Karen Schulman, "State Developments in Child Care, Early Education, and School-Age Care, 2001," Children's Defense Fund, April, 2002, Table 2, pp. 32-33.

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Senate Finance Bill Includes State Options to Improve Transitional Medical Assistance

Transitional Medical Assistance (TMA) provides temporary Medicaid coverage to families moving from welfare to work. Under TMA, families whose earnings would otherwise make them ineligible for Medicaid — many of whom are also leaving welfare — can receive up to 12 months of Medicaid coverage. Thus, TMA provides an important transitional support to families moving from welfare to work who generally have low-paying jobs that do not provide health insurance. Without TMA, many parents who find jobs would lose health care coverage, leaving them without the basic health care they need to be productive workers and providing low-income parents with a disincentive to find jobs or increase their earnings.

Under current law, the TMA program is scheduled to expire at the end of 2002. The Senate Finance bill extends TMA for an additional five years, through fiscal year 2007, while the House bill only extends TMA through fiscal year 2003. The Senate Finance bill also includes several important TMA changes that would allow states to simplify the program and reduce paperwork requirements that place administrative burdens on both states and families. The changes also would give states new options to extend TMA coverage to additional groups of low-income working families:

- **States would have the option to enroll families that find jobs quickly in TMA.** Under current law, families are only eligible for TMA if they received Medicaid for three out of the prior six months. Some states have noted that this rule is inconsistent with welfare-to-work approaches that move recipients into the labor market as quickly as possible. In response to this concern, the Senate Finance bill would give states an option to provide TMA to families that find jobs before they have received Medicaid for three months.

- **States would have the option to provide TMA coverage to low-income families for up to 24 months, instead of the 12 months allowable under current law.** States that adopt this option would ensure that low-income families do not become uninsured after only one year, if parents' jobs do not offer health insurance. Providing such coverage to low-income working families can "make work pay" while also helping parents stay employed by providing them with the health care they need to stay healthy.

Although these changes are included in bipartisan bills introduced in both the House (H.R. 2775) and Senate (S. 1269), they are not included in the House bill.

The Senate Finance Bill Would Give States New Flexibility To Provide Housing Subsidies to Working Families

A growing body of research evidence indicates that housing subsidies can help welfare recipients find stable employment and stay off of welfare.[1] It appears that families are better positioned to move from welfare to work if they are not burdened by the types of housing difficulties that housing subsidies can help address, such as homelessness and unaffordable housing costs. Housing subsidies also make it easier for low-income families to move to areas where jobs are more plentiful but housing costs are higher.

A number of states and counties use TANF funds to provide housing subsidies. Many of these jurisdictions, however, have found it difficult or impossible to set up the types of programs that research has shown to be most effective — namely, programs that provide ongoing rental assistance to working families. The problem is that federal rules define TANF-funded housing subsidies that are provided for more than four months as "assistance," *even if families are working and not receiving TANF cash benefits*. Under these rules, an ongoing, TANF-funded housing subsidy counts against the family's federal TANF time limit. In addition, agencies that provide TANF-funded housing subsidies must maintain detailed monthly records on individual families, even though other federally funded housing subsidy programs do not require such records.

To address these concerns and allow better coordination of TANF-funded housing subsidies with other federally funded housing programs, the Senate Finance bill would allow states to provide supplemental housing benefits to low-income working families without having such benefits count as "assistance." As a result, a state would not have to count months in which a working family received such benefits against the family's TANF time limit, nor would the state be required to collect detailed information every month about the family.

For families that are *not* working, housing benefits would continue to be considered "assistance." Thus, states could not use this provision to get around the time limit on cash assistance by converting a non-working family's cash benefit into a housing subsidy.

Should this provision become law, states likely would choose to target housing assistance on families who need it to remain employed, rather than providing assistance to large numbers of low-income families for long periods of time. Due to both resource constraints and policy considerations, states and localities that now operate TANF-funded housing programs strictly limit the number of participants and impose a time limit on participation that generally is shorter than the state's limit on receipt of cash assistance.

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[1] This research is summarized in Barbara Sard and Margy Waller, *Housing Strategies to Strengthen Welfare Policy and Support Working Families*, Center on Urban & Metropolitan Policy, The Brookings Institution and the Center on Budget and Policy Priorities, April 2002.

The Senate Finance Bill Would Prohibit Discriminatory Treatment of Two-Parent Families and Provide Substantial Resources for Marriage Promotion

The Senate Finance bill includes two important provisions that will promote marriage and strengthen families: it would prohibit states from imposing stricter eligibility rules in their TANF programs on two-parent families than on single-parent families, as several states now do, and it would provide $1 billion over five years for grants to promote healthy marriages and strengthen families. These Senate Finance provisions improve on two related provisions included in the House bill.

Instead of prohibiting discrimination against two-parent families in state TANF programs as the Senate Finance bill does, the House bill would only require states to outline in their TANF state plans how they intend to "encourage" equitable treatment of two-parent families. States would not be obligated to treat two-parent families in an equitable manner. The Senate provision improves on the weaker House provision by eliminating rules that act as a disincentive to marriage and two-parent family formation.

Like the Senate Finance bill, the House bill also provides substantial resources for research and programs designed to promote healthy marriages and strengthen families. The Senate Finance bill, however, offers a more balanced, and less ideological, approach to the controversial issue of government involvement in the marriage and family formation decisions of private individuals. The funding levels and general structure of the House and Senate provisions are as follows:

- The Senate Finance bill provides $1 billion over five years for grants to states and non-profits to develop and implement demonstration projects to promote stronger families, with an emphasis on the promotion of healthy marriages. States and non-profits would have to provide a 25 percent match of non-federal funds or in-kind contributions to receive funding.

- The House bill earmarks up to $1.5 billion in federal funds over five years for these activities. This includes $500 million over five years provided to the Secretary of Health and Human Services for research, demonstration projects, and technical assistance, and up to $1 billion in federal funds over five years for competitive grants to states for programs and activities that promote healthy marriages.[1]

The additional funding that the House provides for marriage programs above the $1 billion committed by the Senate is unwarranted. Little is known about the potential effectiveness of government-funded marriage programs, particularly the very narrow set of programs authorized by the House bill. Furthermore, the earmarked funds in the House bill, and a substantial share of the earmarked funds in the Senate Finance bill, come from redirecting TANF funds that states currently can use for a wide range of programs, including child care and welfare-to-work programs. Absent research showing that government-funded marriage promotion programs are more effective than the uses to which these funds are now being put, such a large amount of federal funds should not be dedicated to such a narrow range of marriage promotion programs.

Like the House bill, funds in the Senate Finance bill could be used for specified marriage education and promotion activities, including pro-marriage public advertising campaigns, voluntary marriage education and skills programs, and marriage mentoring programs.

Funds also could be used for programs that address three of underlying factors that research has shown to have a significant impact on marriage, especially in low-income communities: teen pregnancy, domestic violence prevention, and economic instability.

- **Teen Pregnancy**: Teen pregnancy clearly has a negative impact on marriage and the extent to which marriages are healthy. Some 80 percent of teen pregnancies are non-marital pregnancies. Teen marriages (which are often precipitated by a pre-marital pregnancy) are more likely to end in divorce than other marriages, and women who have non-marital births in their teens and later marry are more likely to divorce than other women.[2]

- **Domestic Violence**: The Administration has specifically called for the promotion of "healthy" marriages. There is little question that domestic violence reduces the extent to which marriages can be considered "healthy." Moreover, domestic violence is frequently cited as a factor that contributes to divorces and influences decisions about whether to marry. Recent research suggests that this is especially the case for women who have received public assistance. A study conducted for the Oklahoma Marriage Initiative found that divorced adults who had received government assistance at some point were significantly more likely to cite domestic violence as a factor that contributed to their divorces than other adults.[3] Similarly, research shows that domestic violence has a negative impact on the attitudes that many low-income single mothers hold about marriage.[4]

- **Economic Instability**: Economic factors play a strong role in discouraging marriage and creating stress that can lead to marital breakup, especially in low-income communities. There is evidence that income support and employment programs may help low-income, two-parent families stay together by making them more economically secure. The Minnesota Family Investment Program demonstration — which the Senate Finance bill explicitly references as an example of the type of programs that funds could be used for — resulted in increased marriage rates, decreased divorce rates, and reduced domestic violence among low-income parents. MFIP provided expanded work supports to low-income working families and eliminated restrictions on the eligibility of two-parent families for assistance. Replicating the demonstration would allow researchers to test whether such policies implemented in different locations would result in similar positive outcomes.

In contrast, funds in the House bill's competitive grants program could *not* be spent for programs that address these three factors; nor, for the most part, could the House bill's research and demonstration funds.

The Senate Finance bill, which emphasizes both marriage education *and* programs that address underlying factors that contribute to marital instability, is an improvement over the more limited approach taken in the House bill. While important, the issues that marriage education programs are designed to address — inadequate relationship skills, unrealistic expectations about marriage, and inadequate understanding of the meaning of marital commitment — are only *one* set of factors that have contributed to martial instability and increases in non-marital pregnancies in recent decades.

In addition, the Senate Finance bill recognizes some of the widely held concerns about government involvement in an area that involves life-altering personal choices. It provides that the decision to participate in certain government-funded marriage programs must be a voluntary one. This will help ensure that individual decisions about highly personal matters are given the respect they deserve. (Unfortunately, this protection only applies to programs receiving government funding under the new marriage promotion grant program, and does not apply to marriage programs established with general TANF block grant funds. It also should be extended to these programs.). The Senate Finance bill also requires programs to

consult with domestic violence experts to ensure that abusive individuals do not take advantage of programs in ways that compromise the safety of their spouses or partners. In addition, the Senate Finance bill provides for input from the public and non-governmental experts into the *criteria* for awarding marriage grants, although there is no provision allowing for the involvement of non-governmental experts in the actual awarding of grants which is solely within the purview of HHS. The House bill includes none of the modest safeguards contained in the Senate Finance bill.

Because so little is known about the effectiveness of government-funded marriage programs, vigorous research efforts in this area are essential. The marriage-related research provisions in both bills, however, do not adequately address the need for high-quality research. The House bill provides substantial funds for marriage programs and research, but provides little direction to HHS to ensure that this funding yields useful research information. By contrast, the Senate Finance bill directs the National Academy of Sciences to conduct a rigorous evaluation of funded programs, but fails to earmark a sufficient amount of funds for this evaluation.

Finally, even if there are significant reductions in the number of children living in single-parent households, there will always be some proportion of children who do not live with both biological parents. These children should be supported by both of their parents. Unfortunately, many low-income non-custodial parents lack the ability to pay child support on a regular basis and an even larger number of non-custodial parents are not actively involved in their children's lives. The Senate bill authorizes, but does not fund, two competitive grant programs that would help put more low-income fathers to work, while increasing the amount of child support they pay and the extent to which they play an active role in their children's lives. The House bill authorizes, but does not fund, a "fatherhood" program that emphasizes marriage promotion rather than increasing noncustodial parents' earnings and child support payments. Given that both bills already provide substantial funds for marriage promotion, the Senate bill's work-focused approach is preferable to the House approach. Funding for this sort of approach should be viewed as an integral part of any comprehensive strategy to improve child well-being by increasing the extent to which children are supported by two parents.

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[1] $500 million of the $1 billion in funds for the state competitive grant program comes from allowing states to use federal TANF funds to provide the dollar-for-dollar match that is required to receive state competitive grant funding. Given state fiscal conditions, it is likely that states generally will use federal TANF funds to meet the required match rather than devoting new state resources.

[2] See Naomi Seiler, *Is Teen Marriage a Solution?*, Center on Law and Social Policy, April 2002; Dan Lichter, *Marriage as Public Policy*, Progressive Policy Institute, September 2002.

[3] In addition, a recent study conducted by the Institute for American Values found that domestic violence during marriage was much more common among unhappy couples who divorced than among unhappy couples that stayed together — 21 percent of unhappy spouses who divorced reported husband-to-wife violence, compared to nine percent of unhappy spouses who stayed married. Linda Waite, et al., *Does Divorce Make People Happy?*, Institute for American Values, July 2002.

[4] Maureen Waller, "High Hopes: Unwed Parents' Expectations About Marriage," *Children and Youth Services Review*, 23 (6-7): 457-484 (2001). Waller found that low-income unmarried mothers who report the father of their child has hit and slapped them in an argument had significantly lower expectations about marriage than other mothers. Similar findings are reported by ethnographic researchers. See Kathryn Edin, "How Low-Income Single Mothers Talk About Marriage," *Social Problems*. 47(1): 112-133 (2000).

The Senate Finance Bill Would Provide States with Significantly More Flexibility to Simplify Child Support Distribution and Pay More Child Support to Families

Existing child support distribution rules — the rules that decide whether the government or the family keeps collected child support when a family receives or used to receive TANF assistance — result in the government withholding child support payments from low-income families to reimburse welfare costs. Usually, the children never see the money. Moreover, the rules are extremely complicated and costly to administer. Reform of these child support rules is broadly supported by states, policy analysts, and advocates for low-income families. While both the House and Senate Finance bills make positive changes in this area, the Senate Finance bill gives states broader flexibility to change their rules in ways that would direct significantly more child support to children.

Several studies indicate that current child support distribution rules discourage low-income fathers both from meeting their child support obligations and from being involved in their children's lives. Low-income fathers often say that they want their child support payments to benefit their children, and they are unwilling to turn over a large share of their paychecks to the government instead. Findings from a Wisconsin study show that fathers are more likely to pay child support and less likely to participate in the underground economy when they know that their support is passed through to their children.[1] In addition, there is evidence from the study that passing through regular support payments to families may increase paternal contact and reduce serious conflict between parents. When children receive child support from their fathers, they do better in school, have fewer health problems, and are more likely as teens to stay out of trouble with the law.

More than half of the money withheld by the government is collected for families who *no longer receive TANF assistance*. The Senate Finance bill would do more than the House bill to help states finance and implement changes that would ensure that families that have left welfare are paid *all* of the child support collected on their behalf. Under the House bill, some of the cost of increasing the amount of child support passed through to families would be "paid for" by imposing an extra $25 fee on certain low-income working families participating in the child support program. Such fees impose an additional burden on families struggling to make ends meet, treat low income families who avoided welfare less favorably than similar families who used to receive assistance, and are not cost-effective.

In addition, the Senate Finance bill would help states implement or enhance policies that direct a portion of child support payments to families that are currently receiving assistance. Under current law, a state can either keep child support payments or pass through all or a portion of the money collected to families receiving assistance. If it adopts a pass-through policy, however, it must continue to pay the federal government its share of any child support that goes to the family. In a state that is required to share child support collections equally with the federal government, this means that if a noncustodial parent pays $100 in child support and the state passes through the full amount to the family, the state still must pay the federal government $50. In other words, even though the state passes through to the family the $100 it collected and does not keep *any* of the money itself, it must pay the federal government an *extra* $50 from general state revenues. Despite this fiscal disincentive, 19 states pass through at least some support to families receiving TANF assistance.

Under the Senate Finance bill, the federal government would help pay for the costs of

sending more child support to families, by giving up its "share" of any child support sent to families. The House provisions are far more limited. Under the House bill, the federal government would help pay for only the costs of a small increase in passed through support (up to a $50 increase or $100 pass through). The federal government would not be required to pay its fair share of the costs in states that already pass through support to families.

In addition, the Senate Finance bill, unlike the House bill, would prohibit the practice in some states of adding the costs of childbirth and newborn care already paid for by the Medicaid program to the support orders of low-income fathers. Low-income fathers often owe thousands of dollars to reimburse the Medicaid program, which as a practical matter will never be paid. Because the task of clearing this debt seems impossible to many low-income fathers, some fathers conclude that there is little reason to keep up with their current support obligations.

Some critics contend that families will stay on welfare longer if they receive child support along with a welfare check. This is contrary to the evidence, however. The research indicates that custodial mothers who can budget for regular child support payments are more likely to leave welfare for work and to hold onto jobs longer than those who do not receive child support.[2] In fact, there is evidence that child support is an alternative to welfare—families are less likely to receive welfare when they can supplement their low-wage earnings with regular child support payments.

Critics of the Senate Finance provisions also argue that if child support is passed through to families, mothers and fathers are more likely to remain separate and avoid marriage. To the contrary, a number of studies indicate that effective child support enforcement reduces divorce and non-marital births by creating disincentives for men to have children outside of marriage. In short, when the government keeps the child support payments intended for TANF children, the government withholds important financial and emotional resources from families, weakens the commitment of fathers to their children, and undercuts the welfare reform messages of personal responsibility and stronger families.

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[1] Daniel R. Meyer and Maria Cancian, *W-2 Child Support Demonstration, Phase 1: Final Report*, Institute for Research on Poverty, University of Wisconsin-Madison, April 2001.

[2] See, e.g., Meyer and Cancian (2001) and Deanna Schnexnayder, et al., *The Role of Child Support in Texas Welfare Dynamics*, Lyndon B. Johnson School of Public Affairs (1998). For a summary of some of the research on this point, see U.S. Department of Health and Human Services, Office of Child Support Enforcement, *1999 Report to Congress: Analysis of the Impact on Welfare Recidivism of PRWORA Child Support Arrears Distribution Policy Changes*.

Senate Finance Bill Would Provide States with Help in Recessions to Cover Some of the Costs of Caseload Increases

The contingency fund included in the 1996 welfare law was intended to help states meet costs associated with increases in assistance caseloads during recessions. Unfortunately, the design of the original contingency fund was deeply flawed and of no use to states during the recent recession. Despite an increase in the national unemployment rate of more than 2 percentage points between October 2000 and April 2002 and TANF caseload increases in 34 states between March 2001 and March 2002, *no state received contingency funding during this recessionary period.*

The Senate Finance bill extends the TANF contingency fund for an additional five years and includes modifications to the fund that would provide states with needed resources during economic downturns. The House bill, by contrast, extends the current contingency fund with only a few minor changes.

The current contingency fund is flawed in several ways. First, it requires states to increase *state* spending on TANF-related programs by *one-third* before receiving even one dollar in contingency funding. Finding the resources to increase state spending by this amount is likely to prove nearly impossible for states facing declining revenues and balanced budget requirements during recessions. And, even if a state could increase its spending by this amount, it would face a very unfavorable match rate if it accessed contingency funding. In addition, the contingency fund "triggers" — the set of economic conditions a state must satisfy to qualify for funding — are ineffective at identifying states experiencing economic downturns. The House bill addresses only one of these flaws: the unfavorable match rate for states that qualify for contingency funding.

The redesigned contingency fund in the Senate Finance bill is a substantial improvement over current law and the House bill. Under the Senate Finance bill, states with rising unemployment rates or increased TANF or Food Stamp caseloads due to deteriorating economic conditions would qualify for contingency funding. (States in which TANF or food stamp caseloads rise for reasons other than an economic downturn would not be eligible for contingency funds.) States that qualified would receive funding to cover a portion of the increased costs associated with the TANF caseloads that rise by more than four percent. States would not be required to increase state spending above their basic maintenance-of-effort level to qualify for contingency funding.

Without a redesigned contingency fund, states will face difficult choices during future economic downturns, particularly since few states are likely to have significant unspent TANF funds from prior years to draw upon in the future. If no additional TANF funds are available during a recession, states will be forced to increase *state* welfare-related spending (an unlikely and extremely difficult prospect during a recession), make cuts in other TANF-funded programs and services, such as child care, or restrict needy families' access to basic assistance.

The lack of overall additional funding for TANF – under both the House and Senate Finance bills – is likely to result in significant fiscal stress for state efforts in the coming years. The presence of a better-designed contingency fund in the Senate Finance bill will provide important, albeit limited, help during periods of economic downturn.

Senate Finance Bill Would Allow States to Provide More Equitable Treatment to Legal Immigrants in their TANF and Health Care Programs

Prior to the 1996 welfare law, legal immigrants were generally eligible for AFDC and Medicaid benefits on the same basis as citizens. The welfare law gave states the option of continuing to provide federal TANF and Medicaid benefits to most legal immigrants but prohibited states from providing these benefits to legal immigrants who have been in the United States for less than five years.

Nearly every state has opted to provide federal TANF and Medicaid benefits to legal immigrants who have been in the United States for more than five years. In addition, many states have used state funds to provide TANF and health care benefits to newer immigrants. Thus, the immigrant restrictions in the welfare law have resulted in substantial cost-shifting from the federal government to states. This is one reason why both the National Governors Association and the National Conference of State Legislatures have called for lifting the immigrant restrictions.

The Senate Finance bill would permit states to use federal TANF funds to provide assistance and services to legal immigrants who have lived in the United States for less than five years. It also would create a similar state option in Medicaid and the State Children's Health Insurance Program (SCHIP) that is limited to pregnant women and children. These state options are not included in the House bill.

Legal immigrants work hard, pay taxes, and generally have the same civic responsibilities as citizens even if they have been in the United States for less than five years. Research has shown that immigrants contribute to the nation's competitiveness and economic growth; immigrants also have helped to revitalize many neighborhoods and small towns across the country.[1]

While immigrants have high employment rates, their jobs often pay low wages, provide few benefits, and can be unstable. The combination of low-wage work and limited economic resources makes it difficult for some immigrants to weather temporary periods of unemployment, the loss of a wage-earner, or other family crises. This is particularly true for immigrants who have had less time in the United States to establish themselves, learn English, and advance in the labor market. Thus, the bar on using federal TANF and health care funds to assist newer immigrants has had the perverse effect of limiting states' ability to provide safety net, work support, and health benefits (like prenatal care) to families during a period in which these benefits can be particularly important.

Some may argue that giving states the option of using federal funds to assist newer immigrants will encourage immigrants to migrate to the United States and settle in those states that adopt this option. Recent studies, however, including a study by a Dallas Federal Reserve Bank economist, find that the availability or generosity of welfare benefits has no impact on immigrants' decisions about where to live in the United States.[2] One study, examining migration trends in the 1990s, found that immigrants entering the United States have increasingly chosen to live in states that provide *less* generous welfare benefits.[3] Immigrants move in search of better jobs and opportunities and to be closer to their families, *not* for welfare benefits.

Others may argue that some newer immigrants will reduce their high levels of work and become dependent on welfare if states are allowed to provide them with the same safety net benefits as citizens and other immigrants. This concern is unfounded. TANF provides ample safeguards against dependency,

including mandatory work requirements and a time limit on assistance. There is no evidence that legal immigrants are more prone to welfare dependency during their first five years in the United States than other persons, and no sound reason to single them out for a harsh eligibility bar that doesn't apply to other families.

Moreover, there is now compelling research evidence showing that the welfare law's eligibility bar on recent immigrants has had harmful effects. A recent study by a Harvard University researcher documented a sharp rise in food insecurity (defined as cutting back on the size of meals or skipping meals involuntarily due to a lack of income) among legal immigrant families most likely to be affected by the five-year bar.[4]

Many legal immigrants have "sponsors" who agree to help them settle in the United States. Under the Senate Finance bill, states that provide federally funded TANF assistance to legal immigrants with sponsors would be required to count the income of the sponsor in determining the immigrant's eligibility for assistance during the immigrant's first three years in the United States.

As a practical matter, this "sponsor deeming" requirement will mean that most legal immigrants who would be eligible for TANF based on their incomes alone will not be eligible for TANF cash assistance at all during their first three years in the United States. Under federal law, sponsors generally must have income that exceeds 125 percent of the poverty line. Since the median income eligibility limit in state TANF programs is about 67 percent of the poverty line, even legal immigrants with no or very low incomes will only be eligible for benefits if their sponsors experience very large declines in their own incomes.

The Senate provision marks an improvement over current law, however, which places no limit on the duration of deeming and thus effectively shifts the full burden of supporting a legal immigrant onto the sponsor for an indefinite period. Such an open-ended, one-sided obligation is neither fair nor realistic. Moreover, applying deeming rules during an immigrant's first few years in the country is preferable to the outright bar on receipt of federally funded assistance that exists now. Under that bar, an immigrant is not eligible for benefits even if the sponsor dies or is otherwise unable to assist the immigrant because of job loss or a significant decline in income.

The Senate Finance bill does not impose a sponsor deeming requirement on legal immigrant pregnant women and children in states that adopt the bill's option to provide Medicaid and SCHIP benefits to these immigrants. If sponsor deeming requirements were applied to these programs, few of the children and pregnant women whom the state option is intended to assist would be able to obtain health insurance. Few sponsors can reasonably be expected to purchase health insurance for sponsored immigrants, since individual health care policies are often unavailable — particularly for individuals with prior health problems — or unaffordable for most middle- and low-income families. According to the U.S. General Accounting Office, the middle-range premium cost of health insurance purchased for a family of four in the non-group market was about $7,300; the limited information available about the income levels of typical sponsors suggests that costs in this range are prohibitively expensive for most sponsors. Moreover, a substantial portion of sponsors appear to be uninsured themselves.

As a result, if deeming were applied to Medicaid and SCHIP coverage for immigrant pregnant women and children, many legal immigrants who are expectant mothers would go without prenatal care and many legal immigrant children — most of whom will ultimately become U.S. citizens — would not have the opportunity to see a pediatrician and receive treatment before minor illnesses become serious or even life-threatening. Diabetic children would not receive insulin, for example, and children with developmental disabilities would not receive health care to help ensure they are ready for school.

Contrary to the misperceptions of some, most children of low-income immigrants live in working, married two-parent families. These children and their families are no more immune to crises such as unemployment and economic insecurity than are families headed by U.S. citizens. In fact, many immigrant families are more vulnerable to these pitfalls as they struggle to establish themselves during their first few years in the United States. The state options in the Senate Finance bill sensibly allow states to extend the same safety net protections and work supports to these families that they provide to citizens.

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[1] See, e.g., *A Fiscal Portrait of the Newest Americans*, Cato Institute (July 1998) and *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, Natural Research Council (1997).

[2] See, e.g., Neeraj Kaushal, *New Immigrants' Location Choices: Magnets without Welfare*, CUNY Graduate Center Working Paper (2002) and Madeline Zavodny, *Welfare and the Location Choices of New Immigrants*, Economic Review, Federal Reserve Bank of Dallas (1997).

[3] Michael Fix and Jeffrey Passel, *The Scope and Impact of Welfare Reform's Immigrant Provisions*, The Urban Institute, Discussion Paper 02-03 (January 2002).

[4] George Borjas, "Food Insecurity and Public Assistance," Harvard University, Joint Center on Poverty Research Working Paper 243 (May 2001).

The Senate Finance Bill Does Not Include the House Bill=s Ill-Advised "Superwaiver" Provision

The Senate Finance bill does not include the House bill=s "superwaiver" provision. The superwaiver would grant sweeping authority to the Executive Branch to override, at a governor=s request, nearly all provisions of federal law that govern more than a dozen low-income programs, including the Food Stamp Program, the public housing program, various homeless assistance programs administered by the Department of Housing and Urban Development, and the Child Care and Development Fund. Without consulting Congress, the Executive Branch could grant superwaivers that alter the basic nature of these programs, including how program funds are used, the level and nature of the benefits and services provided, and the target populations served.

States could use superwaivers to cut benefits for low-income families and then use the savings to replace some state funding for low-income programs. For example, states could undo the Food Stamp Program=s national benefit structure by eliminating or sharply reducing benefits for entire categories of households (even if these households are fully complying with all program requirements established by Congress) and shift the federal funds freed up by these benefit cuts to replace state spending on child care or employment services. While the Food Stamp Program already has broad waiver authority, it includes important safeguards that protect against these kinds of abuses. The superwaiver eliminates these safeguards.

The superwaiver, like existing waiver authority in many programs, would give the Administration in power sole authority to determine whether a waiver should be approved. A recent U.S. General Accounting Office (GAO) report on Medicaid and SCHIP waivers granted by the current Administration under existing waiver authority illustrates some of the concerns raised by giving cabinet Secretaries such broad and unchecked power to waive federal laws.[1] GAO found that HHS failed to follow its own policy on providing opportunity for the public to learn about and comment on pending waivers and granted waivers that were not consistent with program purposes.

In response, HHS disagreed with GAO's recommendations on improving the public input process and took the position that it may grant Medicaid or SCHIP waivers that *do not* meet those program's statutory purposes as long as they meet the purposes of *any* of the Social Security Act programs that are covered by existing waiver authority under Section 1115 of the Social Security Act. According to GAO, current law does not support HHS's broad interpretation of its authority which, in GAO's words, would "effectively eliminate the distinctions among the programs authorized under the identified titles of the Social Security Act." By increasing the number of federal programs and the amount of federal funds that are subject to broad waiver authority, the superwaiver would only expand Executive Branch's unchecked authority to make sweeping changes to federal programs without public input or other important safeguards.

Proponents of the House superwaiver argue that it is needed to provide states with greater flexibility to improve coordination of low-income programs. There are, to be sure, areas in which states could use further flexibility to define certain program parameters or better align programs that serve similar populations or provide similar services. These matters can be addressed, however, without the radical shift in governance and risks to low-income families that the superwaiver poses. More beneficial to

states than waivers are explicit cross-program options — such as the option Congress recently gave states to adopt uniform definitions of income in the TANF, food stamp, and Medicaid programs — that are designed to foster program integration. States can implement these options without having to request and secure federal permission. Where appropriate, other cross-program options that do not require federal approval can be built into various low-income programs.

Several programs already provide additional state flexibility in the form of tailored waiver authority. States can use these waivers to experiment with a broad array of program changes, including changes that align program rules. For example, under current Food Stamp Program waiver authority, states that disregard a portion of child support income in determining the amount of a family=s monthly TANF benefit could seek a waiver to apply the same child support disregard rule in determining the amount of the family=s food stamp benefit. While the Food Stamp Program and a number of other federal programs provide broad waiver authority, this is not the case in the TANF program where waiver authority is limited to the minority of states that received waivers prior to the 1996 welfare law and have continued to operate their programs under these waivers. Most TANF waivers have already expired or will expire within the next year, and current law does not permit the renewal of existing waivers or the granting of new ones. While TANF provides states with substantial flexibility, there may be areas in which states would like to conduct experiments that fall outside of the federal statutory parameters. Thus, providing for waiver authority in TANF would expand state flexibility in a program that does not currently have a waiver mechanism.

The Senate Finance bill would allow states with TANF waivers that expire on or after October 1, 2002 to continue their waiver programs. States without existing waivers would be allowed to replicate existing successful waiver policies for two years. After this period, HHS would evaluate these new waiver projects and could extend them if they were found to be effective. The House bill does not include these provisions; it would only allow new TANF waivers as part of a superwaiver application that included at least one other federal program.

Concerns have been raised that allowing additional states the same options open to states currently operating under waiver rules instead of standard TANF rules could Aweaken@ the work requirements states would be required to meet. There is no evidence, however, that the states that have operated under waiver rules since 1996 have had less success in helping parents move to work. In fact, data on the rates of caseload decline and the employment rates and earnings of families who have left welfare show that states operating under waivers have had similar trends in such indicators as states operating under standard TANF rules. Moreover, the provision would not allow waivers of the Senate Finance bill=s new Auniversal engagement@ requirement, which requires states to develop individual welfare-to-work plans for all adult TANF recipients.

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[1] U.S. General Accounting Office, *Medicaid and SCHIP: Recent HHS Approvals of Demonstration Waiver Projects Raise Concerns*, GAO-02-817, July 2002.

Conclusion

There is significant unfinished work that must be done to help low-income families succeed in the labor market and improve the well-being of their children. To accomplish these goals, Congress and the Administration should act this year to provide stable TANF and child care funding to the states, and adjust the rules of the TANF block grant to improve the performance of state TANF programs. While the Senate Finance bill is not without its problems, it includes several provisions that would more effectively address the challenges faced by low-income families than the House bill. There also is agreement between the two bills on a set of fundamental structural and funding issues. Given that the basis for productive bi-partisan legislation exists, Congress and the Administration should be able to meet this year's legislative deadline for TANF reauthorization.

Center for Law and Social Policy

CLASP

States Have Slowed Their Use of TANF Funds for Child Care in the Last Year

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By Rachel Schumacher and Tanya Rakpraja

Between 1997 and 2000, states relied on increasing amounts of freed-up funds from their Temporary Assistance for Needy Families (TANF) block grant to respond to demands for child care assistance and to the need for child care quality investments. By the end of fiscal year (FY) 2000, states redirected more TANF funds to their child care subsidy programs than was available through the federal Child Care and Development Fund (CCDF) that year—$3.89 billion vs. $3.5 billion. The situation began to change in 2001, however. Since then, a few states have pulled back TANF funds that had previously been committed to child care in FY 2000, and overall states used slightly less TANF for child care in FY 2001 than they did in FY 2000. Although TANF fiscal data for 2002 are not yet available, many states are reporting that they have or are considering making changes in their child care budgets or programs in FY 2002 or FY 2003 as the economy has worsened.

Background: Use of TANF for Child Care Up Until September 2001

In the 1996 welfare law, Congress allowed states to transfer TANF funds to the CCDF and to spend TANF directly on child care.[1] TANF became a key funding source for child care when the unexpected TANF cash assistance caseload declines provided states with substantial amounts of uncommitted TANF funds. States received a level base amount of funding per year under the TANF block grant, while the national economic boom, changes in state welfare programs, and other factors led to a 50 percent decline in TANF cash assistance caseloads between 1996 and 2000.[2] As the proportion of low-income, single mothers with children under six who were

[1] States have the option to transfer up to 30 percent of their TANF block grant to CCDF and up to 10 percent to their Social Services Block Grant (SSBG), as long as total transfers do not exceed 30 percent in any fiscal year. States may also directly spend TANF on child care services. For more information on TANF funds and child care, see Schumacher, R., Greenberg, M., & Duffy, J. (2001). *The Impact of TANF Funding on State Child Care Subsidy Programs*. Washington, DC: Center for Law and Social Policy [hereinafter CLASP, *The Impact of TANF Funding*].

[2] U.S. Department of Health and Human Services, Administration for Children and Families. (2002). *Change in TANF Caseload Since Enactment of New Welfare Law*. Available at: http://www.acf.dhhs.gov/news/stats/aug-dec.htm.

working grew from 44 to 59 percent between 1996 and 2000,[3] many states saw a need to redirect TANF funds to provide child care assistance to these and other low-income working families.

TANF started to become a major source of funding for state child care budgets by FY 1999, after federal regulations governing TANF were released and made clear the extent of state flexibility to spend TANF on critical work supports like child care. While only 12 states transferred funds to CCDF or directly spent TANF on child care in FY 1997, 46 states did so in FY 1999, and 49 did so in FY 2000. As of last September, 44 states told CLASP that in FY 2000 they transferred a total of $2.43 billion in TANF funds to CCDF. In addition, 35 states reported directly spending $1.46 billion in TANF funds in FY 2000—double the amount of TANF spent directly on child care in the previous year.[4]

In interviews CLASP conducted last year with state child care subsidy program administrators, however, many pointed out the inherent instability in relying on TANF to support child care needs. At least 15 states were using more TANF funds than federal CCDF funds for child care in FY 2000, but those we interviewed pointed out that TANF funds could easily be reduced at any time due to changes in state policy priorities, TANF caseloads, federal funding, welfare requirements, or economic conditions. As a result of this funding instability, some state administrators found it difficult to conduct long-term planning for child care subsidy programs.[5]

How Has Use of TANF for Child Care Changed Since Last Year?

The steady growth in use of TANF funds for child care ended in 2001. Use of TANF funds for child care in FY 2001 was $3.65 billion, and some states actually pulled back TANF funds that they had previously transferred to CCDF (resulting in the adjusted overall use figure of FY 2000 dropping from $3.89 to $3.77 billion). There are great variations in spending patterns by state (see attached Table 1).[6] Nationally, 42 states transferred $1.99 billion, and 32 states directly spent $1.66 billion in FY 2001. Of all TANF funds spent or transferred by states in FY 2001, 20 percent went to child care, down from 24 percent in FY 2000 (see attached Table 2).

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[3] U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation. (2002). *TANF Fourth Annual Report to Congress*. Washington, DC: Author, Table 4:1, p. IV-121.

[4] CLASP, *The Impact of TANF Funding*, p. 22.

[5] CLASP, *The Impact of TANF Funding*, pp. 55-58.

[6] FY 2001 data calculated by CLASP from TANF fiscal data reported by states and collected and analyzed by Zoë Neuberger at the Center on Budget and Policy Priorities, except where updated according to verifications by state administrators as of September 2002.

Overview of State Transfers of TANF to CCDF and Direct Spending of TANF Funds for Child Care, Federal Fiscal Years 1997-2001						
Year	**Number of Transfer States**	**Total Amount Transferred**	**Number of Direct Spend States**	**Total Amount of Direct Spend**	**Total Number of Transfer/Direct Spend States**	**Total Transfer/Direct**
1997	8	$175 million	7	$14.5 million	12	**$189 million**
1998	24	$673.5 million	12	$247 million	29	**$920.5 million**
1999	43	$2.54 billion	25	$747 million	46	**$3.28 billion**
2000 *(Sept. 2001)*	44	$2.43 billion	35	$1.46 billion	49	**$3.89 billion**
(Revised Sept. 2002)	43	$2.31 billion	33	$1.46 billion	49	**$3.77 billion**
2001	42	$1.99 billion	32	$1.66 billion	47	**$3.65 billion**

Source: Schumacher, R., Greenberg, M., & Duffy, J. (2001). *The Impact of TANF Funding on State Child Care Subsidy Programs*. Washington, DC: Center for Law and Social Policy; FY 2001 data calculated by CLASP from TANF fiscal data reported by states and collected and analyzed by Zoë Neuberger at the Center on Budget and Policy Priorities, except where updated according to state verifications.

Other insights may be drawn from the updated FY 2001 data. Fewer states are now using TANF for child care, down to 47 from 49 in FY 2000. Three states discontinued use of TANF for child care altogether, while one began to do so. Although transfer remains a popular choice for states seeking to use TANF for child care, 45 percent of redirected TANF dollars are now directly spent, up from about 23 percent in FY 1999. In FY 2000, states doubled from the previous year the amount of TANF directly spent, and, in FY 2001, states continued to make use of that option at a much higher rate than before 2000. Unfortunately, because states are not required to collect child care data on those directly spent dollars, we know very little about the number of children served or what services are provided with directly spent TANF funds. Under current TANF law, states must report whether directly spent funds are for assistance or nonassistance purposes, however.[7] The vast majority (82 percent in FY 2001, up from 76 percent in FY 2000) of child care purchased directly with TANF funds continues to be for working families, as opposed to those without employment.

Overall, redirection of TANF to child care fell very slightly in FY 2001, and, although we do not have enough information to draw conclusions about exactly why individual states made their particular fiscal decisions, several factors may have come into play. At the national level, states received additional federal CCDF funds in FY 2001 and total child care spending grew, but at a

[7] DHHS regulations make a distinction between TANF spending for child care that is for working families, which is considered nonassistance, and child care for unemployed families, which is considered assistance. Receiving assistance has implications for both the families and the state, causing TANF work requirements, time limits, data reporting, and child support enforcement rules to apply.

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lesser rate than seen in the last few years, and states relied heavily on federal funds.[8] States may also have been faced with increased competition for limited TANF funds. Due to the flexibility states have with TANF funds, they can easily decide to reduce their commitment of TANF funds to child care from year to year to meet other state priorities. Reductions in use of TANF for child care may signal cuts to child care programs, but they may also represent changes in how states choose to account for spending among TANF, CCDF, and other funding streams.

The Outlook for 2002

Although FY 2002 data on state use of TANF for child care are not yet available (the fiscal year closes on September 30, 2002), the likelihood of an increase seems low in light of various factors all pointing to increased fiscal stress in states in the last year, such as:

- **Overall decline in revenues and increase in budget gaps:** FY 2001 was the last year in which the aggregate state budget balance was positive at $38 billion, although that was 24 percent lower than the previous year.[9] In FY 2002, 26 states collected less budget revenue than in FY 2001. As a result, the National Conference of State Legislatures estimated that, by the end of FY 2002, state budget gaps totaled $36 billion,[10] and there is a projected $46 billion gap for state FY 2003.[11] Most states have balanced budget amendments that will force governors and legislators to make difficult decisions about cutting spending or raising taxes in order to close these budget gaps.

- **TANF assistance caseload increases and declining reserve funds:** Twenty-nine states reported TANF caseload increases between June 2001 and June 2002.[12] Moreover, in FY 2001, states spent $2 billion more out of their TANF accounts than they received in federal funding that year, a rate that cannot be sustained indefinitely as TANF reserves decline.[13] At this rate of TANF spending, 17 states will have insufficient reserves to maintain their TANF-funded programs at FY 2001 levels in FY 2002, and six more will

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[8] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau. (2002). *FY2001 CCDF State Expenditures*. Available at: http://www.acf.dhhs.gov/programs/ccb/research/01acf696/overview.htm

[9] National Conference of State Legislatures. (2002, June). *State Budget Actions 2001*. Washington, DC: Author. Available at: http://www.ncsl.org/programs/fiscal/sba01sum.htm.

[10] National Conference of State Legislatures. (2002, July). *State Budget Gap Deepens to $58 Billion* (NCSL News Release). Washington, DC: Author. Available at: http://www.ncsl.org/programs/press/2002/pr020724a.htm.

[11] This state budget deficit figure is less than NCSL's estimate in *State Budget and Tax Actions 2002: Preliminary Report*. The Center on Budget and Policy Priorities adjusted that figure to allocate 50 percent of the $23.7 billion FY 2002-2003 biennial budget deficit in California to FY 2002 and to include the $1.9 billion FY 2002 budget deficit in New York. See Lav, I.J. (2002, August). *A New Stimulus Package? States Stand to Lose Substantial Additional Revenue*. Washington, DC: Center on Budget and Policy Priorities. Available at: http://www.cbpp.org/8-22-02sfp.htm#_edn1.

[12] Center for Law and Social Policy. (in press). *TANF Caseloads Declined in Most States in Second Quarter, But Most States Saw Increases Over the Last Year*. Washington, DC: Author.

[13] Neuberger, Z. (2001). *TANF Expenditures Increased in the Last Fiscal Year*. Washington, DC: Center on Budget and Policy Priorities. Available at: http://www.cbpp.org/11-1-01wel.htm.

face difficulties by FY 2003.[14] Meanwhile, the inflation-adjusted value of the TANF block grant has fallen by more than 11 percent since 1997.[15]

- **Reductions in child care eligibility, assistance, and quality investments:** Recent studies find that programs aimed at supporting low-income working families, including child care and early education initiatives, have sustained cuts in the past year.[16] A number of states have reduced the level of income families may earn and still qualify for child care assistance, as low as the federal poverty level in one state ($15,020 for a family of three in 2002). Still other states have increased the amount of parent copayments, frozen payment rates for child care providers so that the rates do not account for inflationary increases in the costs of providing care, or cut back on efforts to make the quality of early learning environments more conducive to child development.[17]

Implications for Reauthorization

Given that TANF funds are not likely to provide an expanding, or even constant, source of funds for states, additional federal CCDF funds are necessary to maintain the stability of child care programs, especially in light of any changes in TANF legislation that lead to increased work requirements and child care needs. However, the funding levels proposed in neither the Senate Finance bill nor the House bill would provide enough to allow states to do much more than address the effects of inflation over the next five years. The Senate would provide $5.5 billion in new mandatory federal funds (with $400 million in associated state matching funds), and the House bill would provide $1 billion in mandatory federal funds (with $785 million in state match). The Congressional Budget Office (CBO) has estimated that it would take an additional $4.55 billion just to allow states to keep up with inflationary effects on their current expenditures and, therefore, maintain current levels of child care services to low-income children.[18]

Although the Senate Finance package would allow states to meet the work requirements without having to cut services for children who are currently receiving them, this would require that states maintain TANF spending at CBO's assumed FY 2000 levels. Since states may choose to use their TANF funds differently, and are already using slightly less for child care as of FY 2001, this assumption may be jeopardized. The situation would be exacerbated if TANF work requirements were to increase the demand for child care assistance as well. Ultimately, even with stable TANF funding, the proposed House and Senate Finance funding levels would do

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[14] Neuberger, Z. (2002, May). *States Are Already Cutting Child Care and TANF-funded Programs*. Washington, DC: Center on Budget and Policy Priorities. Available at: http://www.cbpp.org/5-16-02wel.htm, [hereinafter, Neuberger, *States are Already Cutting Child Care and TANF-funded Programs*]

[15] Neuberger, Z., Parrott, S., & Primus, W. (2002). *Funding Issues in TANF Reauthorization.* Washington, DC: Center on Budget and Policy Priorities. Available at: http://www.cbpp.org/1-22-02tanf5.htm.

[16] Neuberger, *States Are Already Cutting Child Care and TANF-funded Programs.*

[17] Children's Defense Fund. (2002, September). *Low-Income Families Bear the Burden of State Child Care Cuts.* Washington, DC: Author.

[18] For more information about the Senate and House TANF reauthorization legislation, see Fremstad, S., Parrott, S., Greenberg, M., Savner, S., Turetsky, V., & Mezey, J. (2002). *One Step Forward* or *Two Steps Back? Why the Bipartisan Senate Finance Bill Reflects a Better Approach to TANF Reauthorization than the House Bill.* Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy.

little to address the unmet needs of children currently not served; only one in seven or 14 percent of children federally eligible for CCDF-funded child care assistance were served in FY 2000.[19]

Conclusion

Since 1996, states have made use of their options to redirect TANF funds to provide child care assistance to a growing population of low-income working families, as well as to work to improve the quality of child care for disadvantaged children. A year ago, states reported the highpoint of that redirection at $3.89 billion. Since then, economic conditions and a host of other factors may have changed the potential of TANF to help states meet these child care needs. Use of TANF for child care has flattened, and some states have begun to make difficult choices that will have the effect of reducing access to child care assistance or delaying key investments in improving the quality of children's child care experiences. When they become available, FY 2002 data on state use of TANF for child care, as well as on CCDF expenditures, are more likely to tell a difficult story about the challenges states are facing.

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[19] Mezey, J., Greenberg, M., & Schumacher, R. (2002). *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000: Increased Child Care Funding Needed to Help More Families.* Washington, DC: Center for Law and Social Policy.

Work Participation and Child Care Funding Issues in TANF Reauthorization 2003

Presentation for Welfare Reform Task Force,
National Conference of State Legislatures
January 25, 2003

Mark Greenberg
Center for Law and Social Policy
1015 15th St., NW, Suite 400
Washington, DC 20005
202-906-8004; mgreenberg@clasp.org
www.clasp.org

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In brief

- Work participation rates and child care funding were contentious issues in 2002, likely to be so again in 2003.
- Rigid and prescriptive work rates combined with little or no new child care funding would hurt state efforts.
- More flexible and outcome-oriented work provisions, increased child care funding a better approach.

Components of a work participation rate

Impact of rate depends on interaction of factors:

- What's the required **rate**?
- What (if any) **adjustments** are made to the rate?
- Who is in the **base** from which the rate is calculated (i.e., what's the denominator)?
- Which **activities** are countable toward the rate?
- How many **hours** must someone be engaged in order to count?

Rates under 1996 law

- Rates increased 5 percentage points/year, from 25% in 1997 to 50% in 2002.
- Rates adjusted downward by caseload reduction credit.
- Base: all families with adults; exceptions only for those with children under one and those being sanctioned (for three months).
- Restrictive set of countable activities: limited counting of vocational training, no barrier removal.
- 20 hours for single parents of child under 6, thirty for all others.

Results

Rates probably played big role in shaping initial state decisions, but full impact of restrictive list never felt because most states had low or no effective rates.

Administration's Work Proposal

- Increase rate to 70% over five years
- Phase out caseload reduction credit, count people who leave due to work for three months
  - In House bill, caseload reduction credit retained, but with base year for calculation readjusted each year; by 2005, states would only get credit for reductions since 2001.
  - In House bill, states with caseload reductions exceeding 60% from 1995-2001 would qualify for "superachiever credits."
- Allow additional exclusion for first month of assistance
- 40 hours/week to fully count, partial credit if in "direct work" activities at least 24 hours/week
  - In House bill, calculated based on 160 hour month.

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Administration's Work Proposal (cont'd)

- At least 24 hours/week in "direct work"
  - For adults, unsubsidized or subsidized employment, on-the-job training, supervised work experience or community service;
  - Education/training, job search, barrier removal activities only countable toward first 24 hours for 3 months in each 24 months.
- Universal Engagement
- No new funding for TANF or Child Care

Key implications and concerns

- Very different from current approaches, and does not reflect states' best judgment about how to help people get jobs.
- No research basis for proposed approach.
- Significant new costs with no new funding. Would force states to cut other initiatives in efforts to meet requirements.

Does not reflect states' best judgments

- Nothing in federal law would prevent any state from electing to implement this model today if the state wished to do so.
- 41/47 states responding to NGA-APHSA survey said that proposal would cause them to make fundamental changes to state strategies and/or redirect resources

How different?

- Rate: National average 34% in FY 01 (29% without waivers). Without waivers, most (37) states have rates below 40%.
- Hours: States average 29.7 hours per engaged person; one state reports averaging 40.
- Most states have not elected to run large-scale work experience/community service programs or large subsidized employment programs
  - 6.3% of adults in work experience or community service in FY 2001; less than 4% in most states; less than 1% in twelve states.
  - Only 0.6% of adults in on-the-job training or subsidized work in FY 2001; less than 1% in forty states.

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How different (cont'd)

- Most states make limited use of education/training, but use has been growing, and not typically restricted to 3-4 months:
  - 6.2% of TANF adults had reported hours of ET participation in FY 01.
  - At least 40 states allow more access than would be countable under Administration plan.
  - At least 23 states allow more access than countable under current law (but are able to do so because of low effective rates.

Not consistent with research findings about effective programs

- Most effective programs use a range of services.
- No evidence that states should all be required to make more use of unpaid work experience.
- Transitional jobs a promising approach, but costs more and not for everyone.
- No evidence that it's important to restrict full-time ET to three months.
- No evidence that 40 hours engagement more effective.

How much would this cost?

- Congressional Budget Office: House Bill would have added $8 to $11 billion in additional costs for states over five years
- Costs in both TANF and child care
  - $6.2 TANF, $4.9 child care for 40 hour requirement
  - $4.6 TANF, $3.8 child care for 24 hour requirement
- Why?
  - More people, more hours, some current activities don't count

Can't states afford it?

- States were already risking shortfalls before the proposal
  - In FY 01, annual TANF spending of $18.6 billion, $2 billion higher than basic block grants
  - NGA/APHSA: Of 40 responses, 29 states spending above, 8 spending at grant.
  - No proposed inflation or equity adjustments.
- Other spending would have to be cut to meet requirements:
  - Single biggest TANF redirection has been to child care, that and array of other new and innovative state initiatives at risk.

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Senate Finance Bill in 2002

- Universal Engagement
- Raise rates to 70% by 2007
- Employment credit, with adjustments for employed leavers, higher earnings, receipt of child care/transportation, diverted families entering employment
- Credit capped unless state qualified for contingency fund
- Let states exclude adults caring for disabled family members (up to 10%) and those qualifying for SSI

Senate Finance (cont'd)

- Retain current law hours requirement, but raise "primary activities" requirement from 20 to 24 hours.
- Countable activities:
  - Vocational training for up to 24 months
  - State option to have program allowing for longer postsecondary education for up to 10%
  - Barrier removal can count as primary activity for up to 3 months in 24, and another 3 if combined with work or job readiness.

The discussion in 2003…

- Probably, agreement on raising rate to 70%
- Dispute: adjust downward for caseload reduction, employment entries, other factors; will adjustment be capped to ensure effective rate of no less than 50% after adjustment?
- Dispute: should states be able to exclude those caring for disabled from rates?
- Dispute: what number of hours should be required, what activities should be countable?

CLASP recommends…

- Allow states to be accountable for outcomes rather than participation rates.
- Eliminate caseload reduction credit, provide a credit for working leavers, greater credit for leavers with higher earnings.
- Eliminate or reduce restrictions on vocational training.
- Broaden ability to count barrier removal activities.
- Let states exclude those caring for disabled.

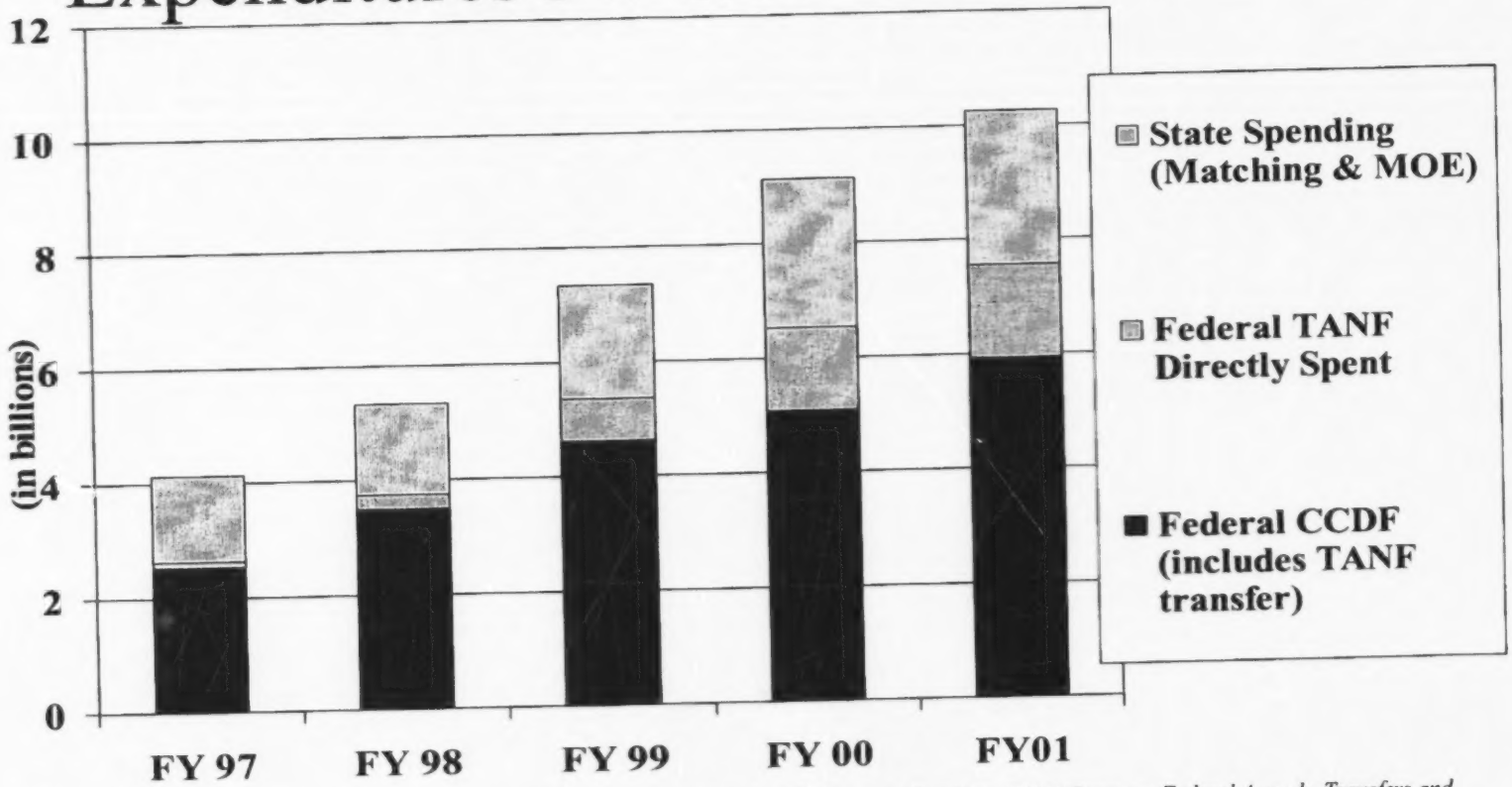
CLASP also recommends…

- Dedicated additional funding to encourage states to develop transitional jobs programs
- Research and evaluation re retention, advancement, employment for multiple barrier families
- Let states use TANF for wage supplements without time limits on working families
- Improve ability to coordinate and integrate TANF and WIA.

Child Care from 1996-2001

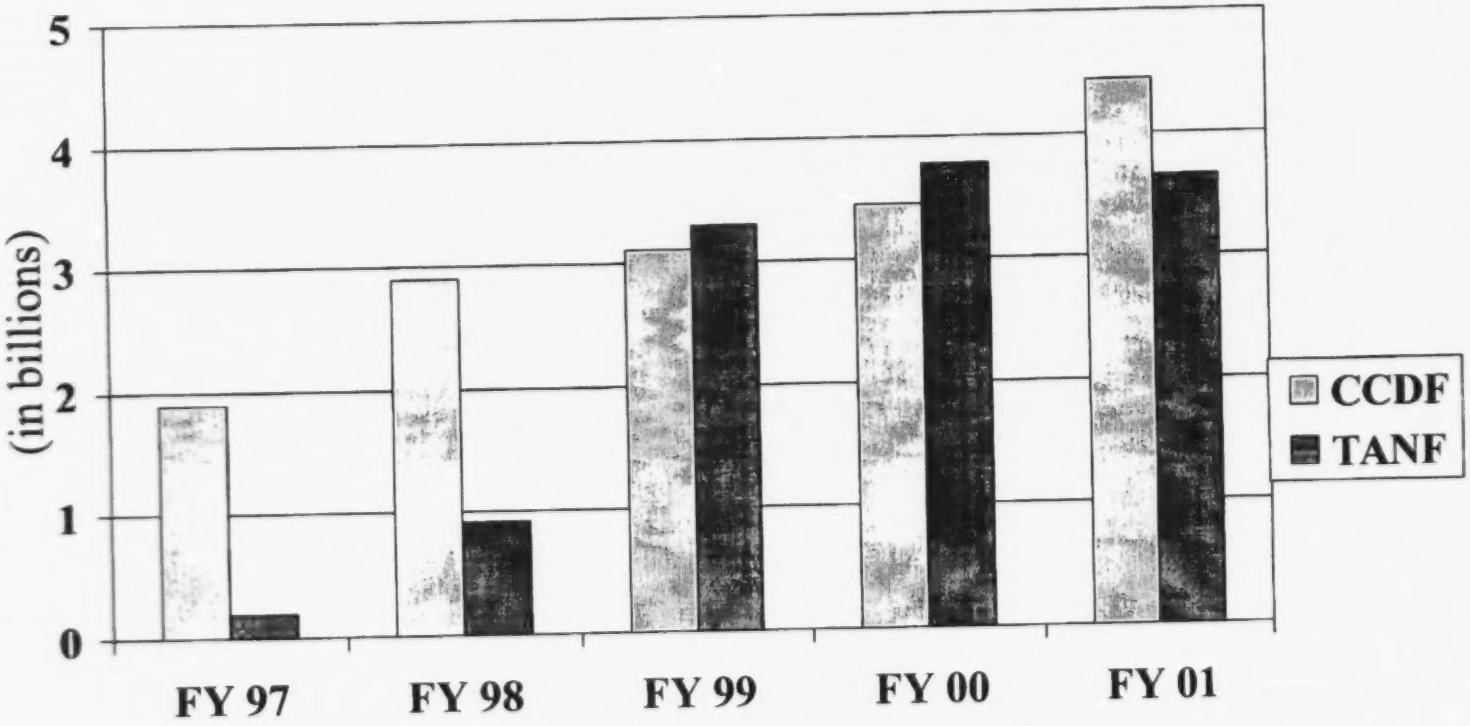
- Expansion of child care a key strategy to support work and reduce need for welfare.
- Single biggest redirection of TANF funds was to child care.
- Significant increase in overall child care funding: most federal, single biggest source of growth was TANF.
- Allowed states to double number of children receiving subsidies.
- Still only reaching 1 in 7 eligibles, continuing concerns about adequacy of rates, compensation, turnover, early learning components.

CCDF and TANF Child Care Expenditures FY 1997 – FY 2001



Source: U.S. Department of Health and Human Services, Administration for Children and Families, *TANF Program Federal Awards, Transfers and Expenditures*; Child Care Bureau, *FY 2000 CCDF State Expenditures* and *FY 1999 CCDF State Expenditures;* CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs*, FY 2001 ACF-196 forms as submitted by states to Zoe Neuberger, Center on Budget and Policy Priorities.

Federal CCDF Allocated & TANF Redirected for Child Care (FY 97- 01)



Source: CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs* and *States Have Slowed Their Use of TANF Funds for Child Care in the Last Year*, www.clasp.org

Last year

- Administration: no new funding
- House: $1 billion in mandatory funding over five years, subject to match.
- Senate Finance: $5.5 billion in mandatory funding over five years, with no match on $5 billion.
- Bingaman/Kerry: $11.25 billion over five years, with match.

Child Care:
Four Goals for Funding

- Maintain current levels of services
- Meet new work requirements
- Expand access for other working families
- Improve quality, strengthen early learning components.

Whether states will be able to meet all four goals depends on how much money they have.

Toward meeting goals

- CBO estimates cost of keeping pace with inflation $4.5 to $5 billion over five years.
- Cost of maintaining current services probably greater in light of pressures on state budgets.
- If work rates increase without increasing TANF funding, states will likely need to withdraw TANF funds from child care.

Funding alternatives

- Senate Finance package ($5.5 billion) not enough to meet Administration's work requirements ($8-$11 billion) and maintain current services ($4.5 - $5 billion).
- If Congress hopes to see improved access or improved quality, funding levels must be higher.

CLASP recommends…

- Child care funding should be sufficient to maintain current services, meet work requirements, broaden access and improve quality.

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